

The Achilles Heel of Texas:

*Improving College Eligibility Rates
Through K-12 Education Savings Accounts*



Dr. Matthew Ladner
September 2016

September 2016

This study was commissioned by the **Texas Business Leadership Council, Excellence in Education, and the Texas Public Policy Foundation** for the purpose of exploring the issue of college readiness of Texas students and examining methods for meeting the education needs of Texas' children in today's competitive world economy.



Table of Contents

Executive Summary	3
Expanding College Eligibility.....	4
Texas Education Has Quantity But Needs Additional Quality.....	6
Texas College Readiness Tests Demonstrate Severe Achievement Gaps.....	7
Tomorrow's Texas: Growing Youth and Elderly Populations	8
Texas Higher Education Cost.....	9
Texas K-12 Stagnation Contrasts Sharply With General Progress.....	9
Choice Programs and High School and College Graduation Rates	10
Education Savings Accounts.....	11
Conclusion: Bringing the Blessings of Education Liberty to All Texas Students.....	13
Endnotes.....	14

The Achilles Heel of Texas: Improving College Eligibility Rates Through K-12 Education Savings Accounts

by Dr. Matthew Ladner

SUMMARY OF FINDINGS

- Education Saving Accounts (ESAs) will enhance college readiness in Texas.
- Texas has one of the lowest college attainment rates in the nation.
- Only 19 percent of Hispanic and black students rate as proficient on NAPE.
- The student achievement gap for minority students in Texas is still unacceptable.
- ESAs allow parents to tailor educational services to the specific needs of individual students.

Executive Summary

An Education Savings Account program similar to that passed in Nevada would represent a policy innovation with substantial benefits to addressing critical challenges in Texas, including enhanced college readiness and college completion. Texas needs this sort of dynamic tension to spur public school improvement, enhance college readiness, and meet the needs of a dynamic world economy as suggested by the Texas Higher Education Coordinating Board's 60X30TX report.

Texas excels on many fronts, however college readiness is not one of those fronts. In fact, according to the U.S. Census Bureau, Texas has one of the lowest college attainment rates in the nation. The future prosperity and stability of the state rests upon providing opportunity for all students. Just keeping ahead of most other large states will require upgraded academic performance. Internationally competitive scores will require still far more improvement.

Unfortunately, every indicator available points toward an unmistakable conclusion: only a minority of current Texas students have been educated to a college-ready level. Texas ACT scores indicate that only 13 percent of

Hispanic students, 8 percent of black students, and 41 percent of Anglo students are college ready. Although Hispanic students now constitute a majority population of Texas public schools, only 19 percent of Hispanic and black students are proficient or better in reading according to the National Assessment of Educational Progress.

The 19th century model of factory-style schooling provided by local near monopolies run as local government units continue to dominate K-12. However, improvement in quality of life in modern society has been driven primarily through voluntary exchange between the creators and providers of goods and services and consumers. We are learning that voluntary exchange also works to improve education. Today about half of the states provide for some form of parental choice in education outside the public school system. Texas has no such program.

While K-12 education has been stuck in an expensive rut, the private choice movement has been developing more powerful policy mechanisms, the most impressive being the Education Savings Account. **Unlike other choice programs, Education Savings Accounts allow parents to manage a state-funded account and choose between single or multiple providers.** The account may be used for

multiple services including tuition, fees, books, tutoring, therapy, curriculum, testing, and public school services. Funds not used in one year are rolled over to the next.

In addition to maximizing the ability to tailor educational services to the specific needs of individual students, such accounts also allow parents to build assets for future educational use, including college/university expenses or other postsecondary training. Education Savings Accounts not only give parents the incentive to consider costs, but also give students the opportunity to make themselves eligible for college and to afford it.

Research indicates such programs result in significant enhanced parental satisfaction, improved student performance, and greater efficiency in the allocation of resources. Other benefits to Texas could include relieving public school overcrowding and increasing the per-pupil resources available to school districts. Perhaps most importantly, it also has the potential to create positive competitive pressure on the public school system and thereby improve public school performance.

Expanding College Eligibility

Blessed with a strong business climate, favorable geography (central location with access to the sea) and abundant natural resources, Texas spent most of the last decade as the leading state for private sector job growth. Past results, as the saying goes however, do not guarantee future success. Texas has enjoyed this recent economic success despite lagging far behind the national average in college obtainment, suggesting that the state's education system could be doing more to secure prosperity. A far more challenging policy environment looms for Texas in the near future—making the need for improvement in education outcomes substantial.

People do of course enjoy success in life without graduating from college—Michael Dell for instance comes readily to mind as a prominent Texas example. People make their own decisions about postsecondary education, and people disagree about whether too few or too many young people attend college. Many feel that the K-12 system does not focus enough on the needs of students who aspire to do things other than college after graduation.¹ There is plenty of room for debate in such discussions.

One subject that should not elicit debate however is the notion that a high percentage of high school students should display the academic skills and knowledge necessary to succeed in college if they choose to

attend. In other words, it is one thing if Michael Dell drops out of the University of Texas at Austin to create a business empire, something entirely different *if he had never qualified to attend college in the first place*. In the former scenario the world was enriched, while in the latter scenario it would have been more impoverished.

Despite the fact that Texas outperforms most other states in several measures of academic achievement when they are demographically adjusted, a disturbingly low percentage of Texas K-12 students display a level of academic preparation necessary to gain admittance into a moderately selective college or university. Moreover, higher education costs in Texas have been increasing at a rate far above inflation—meaning that even when Texas students *qualify* for college the ability to *afford it* could continue to decline. **Academic achievement in the Texas K-12 system has stagnated in recent years.** As the state has struggled to accommodate an increase of 80,000 to 90,000 new K-12 students per year, the percentage of funding going into capital and debt service has increased while achievement scores have stagnated.

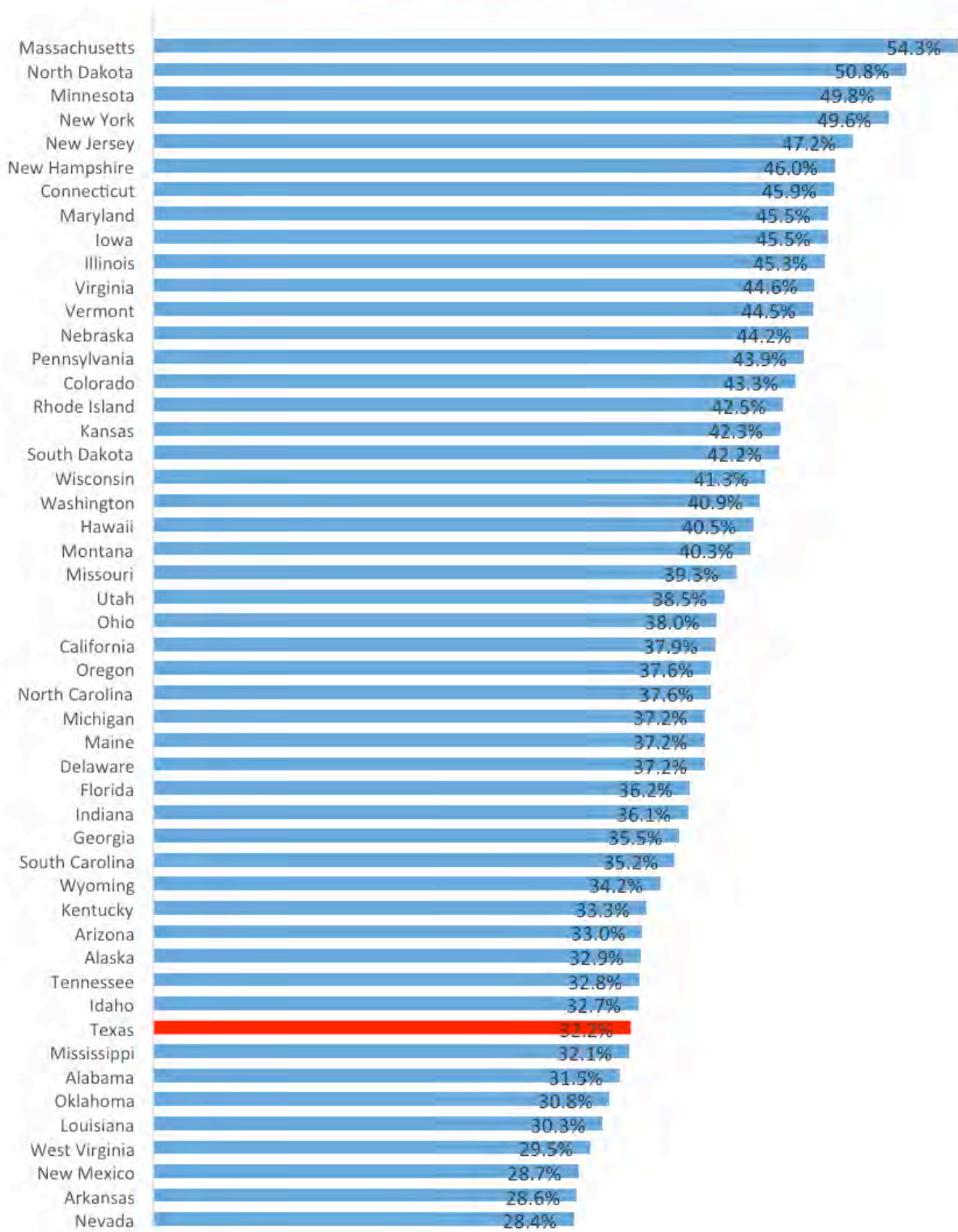
Figure 1 shows that Texas has one of the lowest college attainment rates in the nation among young adults according to the United States Census Bureau.

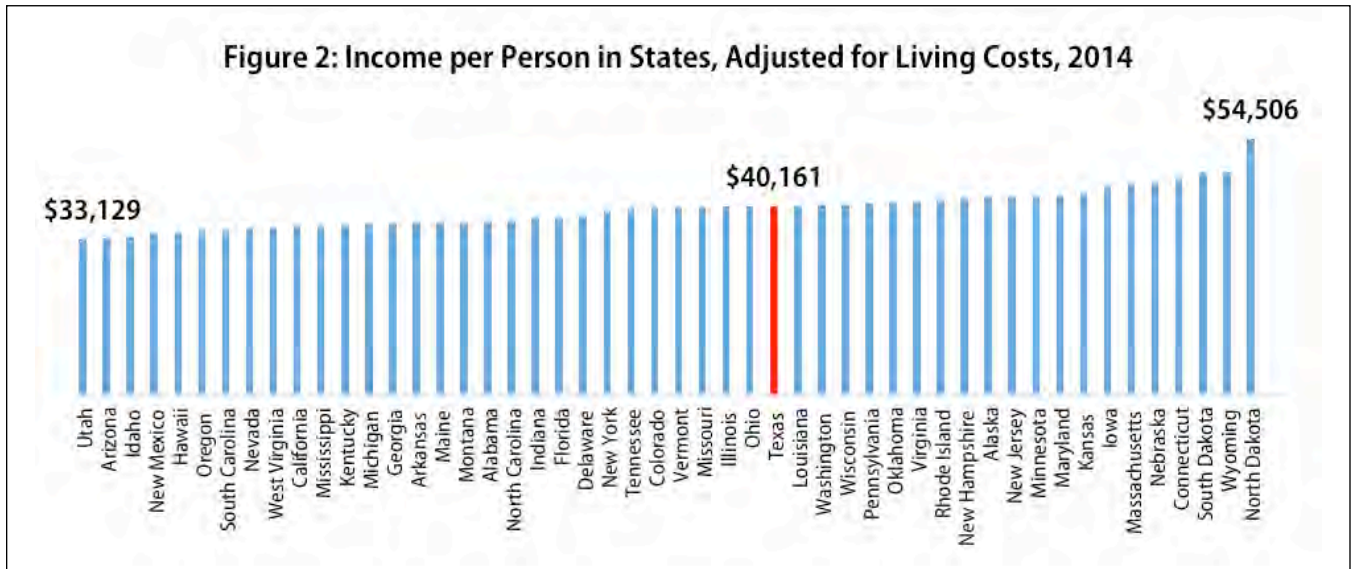
Despite the relatively active job creation in Texas relative to other states, per person incomes rank only in the middle of the pack range, even after adjusting for the state's relatively low cost of living.

Some will propose to respond to these challenges by calling for increased K-12 and higher education state funding. For reasons detailed below, it is incredibly unlikely that per student funding will increase in either Texas K-12 or higher education over the medium to long term. The United States Census Bureau projects both the Texas youth and the elderly populations to expand substantially over the next 14 years. In short, the projections see more of the same on the expansion of the youth population, and the entire baby-boom generation population will have reached the age of 65 by 2030.

Expanding elderly populations are associated with slower state revenue growth and greater demands for public spending on medical care. Between millions more school aged children and millions more elderly residents, the prospects for per student increases in state funding for education should be understood to be grim. When facing large projected increases in both the elderly and youth populations, carrying one of the lowest state rates

Figure 1: Residents Aged 25-34 with an Associates Degree or Higher, 2010 (Source: U.S. Census Bureau)





for college educated working age people foretells severe troubles—but Texas finds itself in precisely this situation.

More Texas students can earn the opportunity to attend and succeed in college despite the inability of policy-makers to throw money at the problem. The main goal in expanding such opportunity lies in making better use of existing resources. The pages below will make the case that an Education Savings Account (ESA) similar to that passed by Nevada lawmakers in 2015 would greatly benefit Texas students. Under an education savings account, parents manage a state-funded account to purchase various K-12 services. Parents can use funds for private school tuition, individual public school courses, college course tuition, online education fees, special education services, and to a limited degree saving and investing for future higher education expenses.

An ESA program in Texas could allow parents to maximize “bang for the buck” in Texas K-12 funding while allowing students to build assets for future higher education expenses. **Such a program could increase college eligibility rates, decrease public school overcrowding, while allowing students to build assets to invest in higher education.**

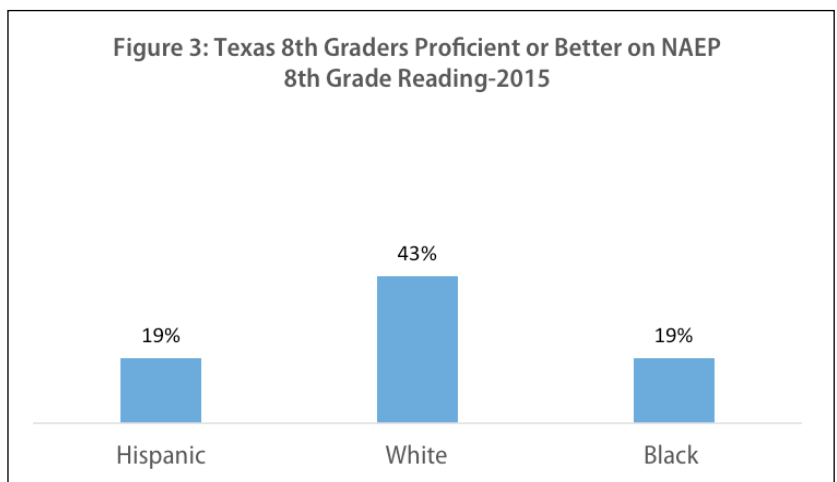
Texas Education Has Quantity but Needs Additional Quality

The National Assessment of Educational Progress (NAEP) has measured academic knowledge in fourth- and eighth-grade math and reading at the state level since the early 1990s. During

the 1990s Texas was recognized as a national leader in spurring academic gains, but in recent years the progress in Texas has slowed, and even reversed.

NAEP data for Texas reveal appalling achievement gaps: 43 percent of Texas Anglos read proficiently, while **only 19 percent of Hispanics and black students scored proficient or better respectively in reading.**

Hispanics now make up a majority of Texas public school students (52 percent)—meaning that a 19 percent proficiency rate in reading should be setting off alarm bells across the state. White students comprise 28.9 percent and black students 12.6 percent of the total Texas public school body.² With only just over a quarter of the student body being Anglo, the (still disappointing) proficiency rating of 43 percent doesn’t go terribly far. The 19 percent proficiency rate of the 64.6 percent of Texas public school students who are either Hispanic or black should instill a grave concern in the public and policy-

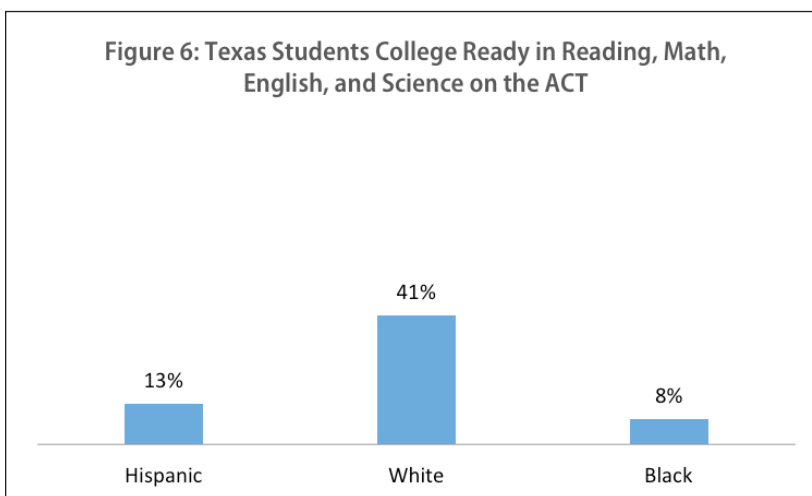
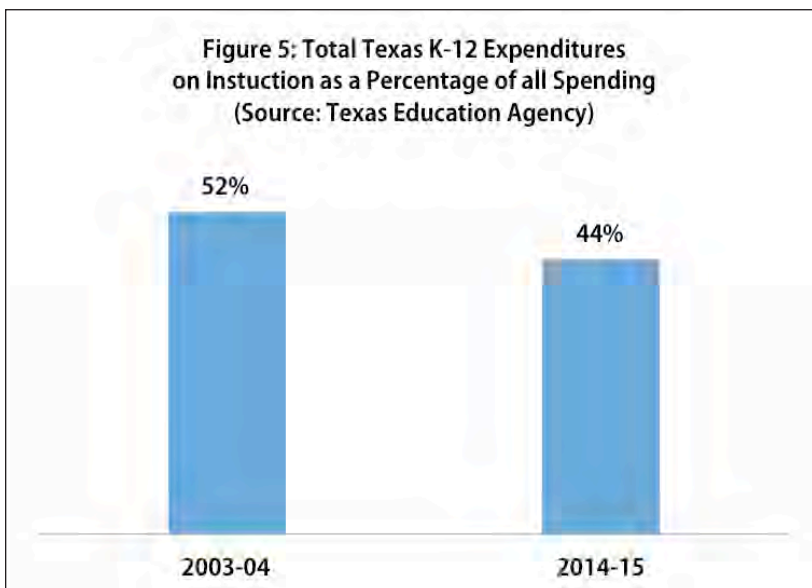
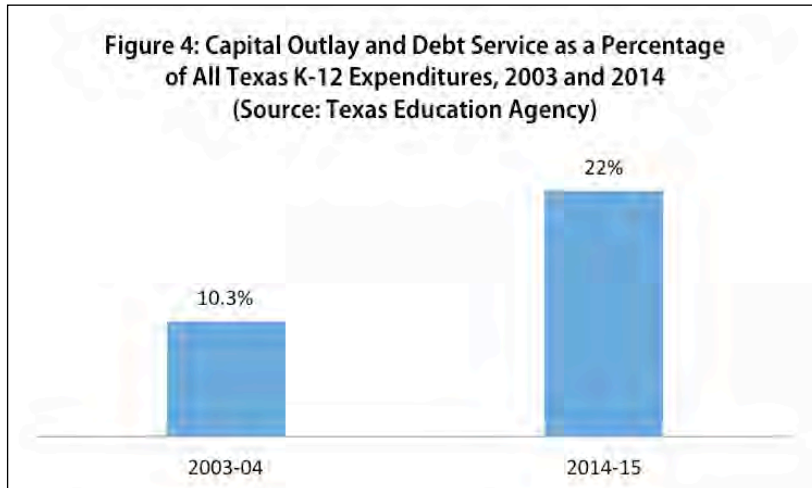


makers. The future prosperity and stability of the state rests upon providing opportunity for all students.

In addition to academic issues, Texas districts have been annually adding approximately 80,000 new students.

The resulting financial strain has required a steadily decreasing percentage of funds going into the classroom.

While the percentage of expenditures going to address debt and facility needs has increased, the percentage of funds going to instruction has declined.



Texas public school enrollment has grown by more than 50 percent since 1990—from approximately 3.3 million students in 1990 and more than 5 million today. Costs per student have surged and the percentage of funds available for instruction has declined. Since 2000 the total expenditure per child has increased from \$6,638 per pupil to \$11,146. Debt service and capital outlay costs nearly doubled as a percentage of district budgets.

Today less than half of funds go to pay for instruction as teachers of all things find themselves squeezed in expanding district budgets and taxpayers feel the strain of annually rising property taxes. Texas in effect tried and failed to spend its way to higher quality schools.

Texas was K-12 reform leaders in the 1990s but today these efforts appear to be low-hanging fruit. **Just keeping ahead of most other large states will require upgraded academic performance.** Internationally competitive scores will require still far more improvement.

Texas College Readiness Tests Demonstrate Severe Achievement Gaps

The ACT measures college readiness in four subjects—Mathematics, Reading, Science, and English, and estimates a readiness score that gives a student a 50 percent chance of scoring a grade of “B” in a set of college introductory courses. **Figure 6** presents the results for the statewide Texas Class of 2014.

Like the NAEP, the ACT shows low levels of college readiness and large achievement gaps. Some might at this point pose the question “Texas has succeeded economically in the past, why should we change things now?” The answer—the Texas of 2030 will have fewer working-age people paying the bills for greater numbers of elderly and young

residents. Many of the working-age people of 2030 currently sit in Texas classrooms. The cohort of college ready students in the public school pipeline is both very small and very unrepresentative of the overall student body.

Tomorrow's Texas: Growing Youth and Elderly Populations

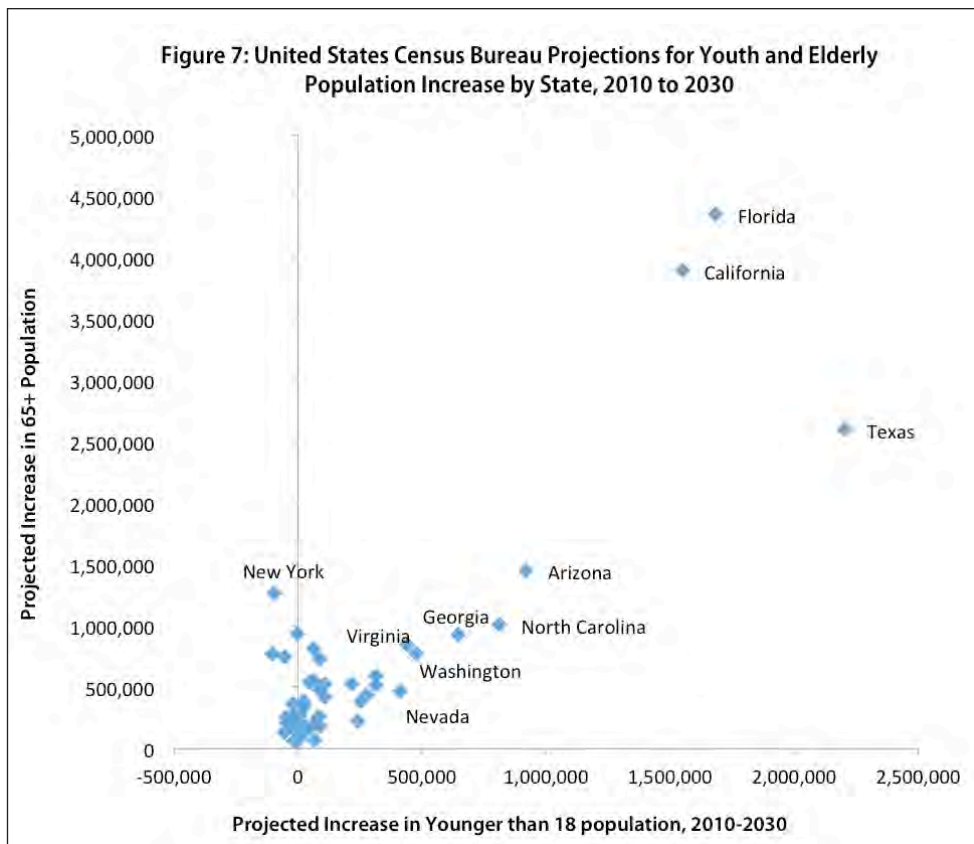
The United States is in the midst of a large demographic shift related to the retirement of the baby-boom generation. The first baby boomer (the large cohort of America born after the end of World War II stretching into the early 1960s) collected federal retirement benefits. On average 10,000 American baby boomers per day will reach the age of 65 until the year 2030, whereupon all surviving boomers will have reached the age of 65.

The policy implications of an aging society are profound. The most obvious issues lie at the federal level through retirement programs such as Social Security and Medicare, which face well-documented solvency issues. Lawmakers in Austin can alas do nothing about this, but they will face problems of their own and crucially need to plan to face these problems with less overall help from Uncle Sam. The federal government provided 38 percent of the funds utilized by the Texas government in 2008. Uncle Sam however currently carries \$19.4 trillion in debt and the United States Treasury estimates \$55 trillion in unfunded

entitlement liabilities for federal programs.³ Both Texas K-12 and higher education could be substantially impacted by a reduction in federal aid. No one can say how federal insolvency will play out in the coming years, but things that can't go on forever don't go on forever. Prudent lawmakers in Austin will almost certainly face their problems with less funds from the federal government.

Texas lawmakers will not lack for problems ahead. Population aging impacts a variety of policy areas—increased health care costs, public pension solvency and slower rates economic growth. Each of these subjects is worthy of extensive discussion, but lies beyond the scope of this paper. For the purposes of the current discussion let us simply note that an aging population carries much greater costs than benefits from the perspective of the state. The elderly for instance stand as some of the most expensive per enrollee beneficiaries of the Medicaid program, which is jointly financed by state and the federal government.

The United States Census Bureau projects all states to age between 2010 and 2030. The Census Bureau however projects Texas to be among the states with substantial increases in the youth population to occur at the same time as the elderly population. Data from the Census Bureau illustrates this phenomenon in Figure 7.



Texas projects to have the largest overall increase in the youth population between 2010 and 2030 to go along with the large increase in the elderly population. Like the elderly, young people tend to be net beneficiaries of public spending—most notably for education—and pay very little in the way of taxes.

At any given time, it is the working-age population that is carrying the primary load in financing state services for the young and the elderly. Texas currently has a very large youth population, which bodes well for the future if its members are well-educated, prove to be employed at high levels, and spur high rates of innovation and economic growth. Every

indicator available to us however points towards an unmistakable conclusion: only a minority of current Texas students have been educated to a college-ready level.⁴

A mind has always been a terrible thing to waste, and the price looks set to soar. **Texas can ill afford to tolerate education stagnation and should develop powerful tools to substantially improve the productivity of K-12 spending.** The challenges ahead are substantial, with a dire need to improve education outcomes and in all likelihood to do so at a lower overall spending per pupil.

Such a result seems impossible to many involved in education, but in fact the process of goods and services becoming better and cheaper is entirely normal. The process of K-12 education trending toward becoming ever more expensive with modest to negligible improvements in quality is abnormal and is driven by public policy.

Texas Higher Education Cost

Between 2004 and 2015, the in-district tuition and fees for a two-year community college student increased by 36 percent—from \$1,741 in 2004-05 to \$2,361 in 2015-16 (constant 2015 dollars). During the same period, the average cost for tuition and fees at state colleges and universities increased by 43 percent. In 2004 average tuition and fees at state universities stood at \$6,395, but by 2015 the cost of average tuition and fees had increased to \$9,117.⁵ Thus while the Texas K-12 system has prepared only a relatively small portion of students for higher education success, college has simultaneously become less affordable over time. Imagine a future Texas higher education simultaneously including greater demands for elderly health care, an increased K-12 school aged population, and less federal aid from the federal government. It is very easy to imagine tuition and fees rising much higher than today as other sources of revenue decline.

Education Savings Account programs allow parents to save for future higher education expenses. The Arizona program allows parents to keep money in the account for such use, or to put a limited amount of funding into a Coverdell Savings Account annually. This may represent the only realistic opportunity for some student to build assets for future higher education expenses, and help avoid student loan debt. The full features of an ESA program will be discussed in the following pages.

Texas K-12 Stagnation Contrasts Sharply With General Progress

We interrupt this nonstop litany of public sector doom and gloom to note that in stark contrast to trends long

noted in government run enterprises, it has been perfectly normal for goods and services to become both better and cheaper over time. Nobel Prize-winning economist Dr. Milton Friedman diagnosed the monopolistic provision of K-12 education as a serious ailment lying at the heart of American public education. Friedman spoke passionately about freedom as the driving force behind human progress and the alleviation of poverty. For instance, Friedman said:

The great achievements of civilization have not come from government bureaus. Einstein didn't construct his theory under order from a bureaucrat. Henry Ford didn't revolutionize the automobile industry that way. In the only cases in which the masses have escaped from the kind of grinding poverty you're talking about, the only cases in recorded history are where they have had capitalism and largely free trade.

If you want to know where the masses are worse off, worst off, it's exactly in the kinds of societies that depart from that. So that the record of history is absolutely crystal clear, that there is no alternative way so far discovered of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by the free-enterprise system.⁶

Illustrative of this point, American Enterprise Institute economist Mark J. Perry took a page out of a 1964 Sears catalog showing the image and price of a television set and the cost—\$749. The Sears catalog proudly boasted that the set was *in color*. Readers old enough to recall these sets will remember them as big pieces of furniture rather than the devices we hang on the wall today. Perry adjusted the cost of \$749 in 1964 into current dollars, finding the cost to be the equivalent of \$5,300 in 2010 dollars.

Perry posed the question as to what electronics one could buy today for the inflation-adjusted equivalent cost of a television set in 1964. For starters, you can buy a far superior flat-screen television set that is not only in color but also has a vastly higher number of channels and a number of other features that did not exist in 1964. The cost for this much superior television was \$700 in 2010 dollars. Such televisions have become even less expensive since 2010.

Perry found the remaining \$4,600 was enough to buy 16 other electronic products in addition to your vastly superior television set, including a washer and dryer, a refrigerator and a separate freezer, a microwave oven, an iPhone, a Global Positioning System, a digital camera, and a Blu-ray Disc player. Many of these products were completely unavailable at any price in 1964, but today they are not only available, they are getting less expensive to buy.⁷

This phenomenon of products and services improving in quality and while being delivered at lower costs is quite normal in sectors not adversely impacted by government policy and/or management. Citing Bureau of Economic Analysis figures, Perry notes that the percentage of personal consumption expenditures going to buy food, cars, clothing and household furnishings has dropped from about 45 percent in 1950 to about 16 percent in 2010.⁸

Whether steady or sudden, progress in terms of cost and quality represents a defining characteristic of modern life. Voluntary exchange between the creators and providers of goods and services and consumers drives this type of improvement. Note however that compulsion—in the form of mandatory taxation, attendance and limited overall options, stands as far more prevalent than voluntary exchange in K-12. Andrew Coulson noted that even private schools in America operate largely as niche players in the shadow of a vastly larger public school system rather than a dynamic or disruptive market force. The 19th century model of factory-style schooling provided by local near monopolies run as local government units continue to dominate K-12. Districts with generally low turnout elections and highly organized employee interests have mysteriously failed to keep pace with the general pace of improvement. Worse still, rather than getting better and cheaper, the trend in Texas schools has been to get far more expensive without any sign of substantial improvement in quality.

Imagine Milton Friedman alive today to study the K-12 challenges Texas faces—expanding costs, overcrowding, stagnating quality, low and profoundly unequal college readiness. It seems incredibly likely that Dr. Friedman would prescribe Education Savings Accounts as a big part of a solution for what ails Texas K-12.

Choice Programs and High School and College Graduation Rates

Scholars have found private school attendance generally, and private choice program participation specifically, to have positive impacts on both high school graduation rates and college completion. A study performed by the National Center for Education Statistics tracked 10th-graders in 2002 through the higher education system for a 10-year period ending in 2012. They found that 31.1 percent of students attending public schools as 10th-graders had completed a bachelor's degree or higher by 2012, but 61.9 percent of students attending a Catholic private school and 57.1 percent of those attending a non-Catholic private school as 10th-graders in 2002 completed a bachelor's or more by 2012.⁹

We can eliminate the possibility that differences in socioeconomic status or parental motivation may have created such differences by employing a random assignment study. In a random assignment study, subjects divide into experimental and control groups as the result of a random lottery. Such lotteries have often been employed to allocate school vouchers when the number of eligible applicants exceeds the number of available vouchers. All eligible students who apply for the voucher program get placed into the lottery, and all the students whose families applied had parents motivated enough to seek the voucher. The random assignment process therefore allows us to isolate the impact of the choice program itself.

Such a random assignment study of the Washington D.C. Opportunity Scholarship program found that students who used vouchers graduated from high school at a rate 21 percent higher than students in the control group. Congress established a voucher program for a limited number of low-income students in the nation's capital in 2004. The federal government conducted a series of random assignment evaluations of the results, finding the strongest results in the area of graduation. "These results are important," study coauthor Dr. Patrick Wolf noted, "because high school graduation is strongly associated with a large number of important life outcomes such as lifetime earnings, longevity, avoiding prison and out-of-wedlock births, and marital stability. Academic achievement, in contrast, is only weakly associated with most of those outcomes."

A longer term study of a privately financed New York City voucher program found that black students who used vouchers as elementary students attended college at a rate 24 percent higher than the control group.¹⁰ These results were both large and statistically significant. The results for Hispanic students were smaller and statistically insignificant, but the finding that a \$1,400 per student voucher for elementary students significantly moved the needle on college attendance rates for black students gives us hope that a more robust policy can have a still more powerful impact.

The next generation of parental choice programs—Education Savings Accounts—represent a far more powerful intervention than a voucher, whether of the \$1,400 variety or otherwise. As detailed below, an Education Savings Account opens up a variety of educational services and products to participating students—they include private school tuition but also many other things at the discretion of the parent and student. Moreover, Education Savings Accounts allow families to build assets for future higher education use. ESAs thus have the potential to increase both college *readiness* and college *affordability*.

The limited amount of experience with ESAs does not permit an informed estimate regarding the possible benefit of an ESA program in terms of improving college readiness and affordability. Such impacts however would be both direct (participant effects) and indirect (through positive competitive pressure on public schools). We have every reason to believe that both the direct and indirect impacts of ESAs would be equivalent to those of vouchers on college readiness, which have proven to be substantial for disadvantaged students using voucher programs. The biggest room for improvement in the Texas college readiness data lies with just such students, but there is a need for improvement across the board.

Creating the opportunity for students to save money and build assets for higher education expenses is something unique to an ESA program—no mere voucher program can match this feature. Texas needs as much help as it can get on college readiness as soon as it can get it.

Education Savings Accounts

While K-12 education has been stuck in an expensive rut, the private choice movement has been developing more powerful policy mechanisms. The first generation of choice policies—school vouchers and charter schools—have enjoyed substantial success. **The Washington D.C. Opportunity Scholarship Program for instance spurred high school graduation rates for participating students that were 21 percent higher than their comparison group of students.** Scholars have found charter school students score higher in a number of random assignment studies.

Charter school and school voucher mechanisms however have limitations. While they often achieve better outcomes and higher levels of parental satisfaction, they also create the incentive for providers to tie their operating costs to the maximum level of subsidy. Unlike the examples provided in the previous section, they do not create a process by which service providers are constantly attempting to provide the best possible service at the lowest possible cost. Likewise, parents lack an incentive to consider cost when choosing providers.

Charters and vouchers represent all or nothing propositions—you either take all of your funds to this or that school. Since 2011 however, school choice innovators have developed account-based choice programs—known as Education Savings Accounts—which allow parents to manage a state-funded account to choose between single or multiple providers. Such accounts

also allow parents to build assets for future educational use, including college/university expenses or other post-secondary training. This feature not only gives parents the incentive to consider costs, but gives students the opportunity to not only make themselves eligible for college but also to afford it. Education Savings Accounts therefore represent a policy innovation with substantial benefits to addressing the challenges in Texas.

Arizona lawmakers established the first of five Education Savings Account programs in 2011. Three of these programs—in Florida, Mississippi and Tennessee—focus on the needs of children with disabilities. Nevada lawmakers, facing extreme levels of overcrowding and low levels of performance, took the bold step of creating a near universal Education Savings Account program in 2015.

The Arizona Empowerment Scholarship Account created an account established to provide an education for qualified students. The law specifies that the parents or guardians of the eligible children must sign an agreement with the state to provide an education that must include reading, grammar, mathematics, social studies, and science. By signing the agreement, the parents agree not to enroll their children in a district or charter school for the following year, and release the school district of residence from any obligation to educate the participating children.

In return, the state of Arizona deposits 90 percent of state funding that would have otherwise gone for a child to attend a state charter school. The state employs funding formula weights—providing higher levels of funding for instance for children with special needs—for ESA students. Parents access these funds through the use of a debit card, and the statute specifies the allowable use of the accounts. ESA funds may be used for the following purposes:

- Tuition or fees at a private school
- Textbooks.
- Educational therapies or services from a licensed or accredited practitioner.
- Curriculum.
- Tuition or fees for a non-public online learning program.
- Fees for a standardized norm-referenced achievement exam.
- Fees for an Advanced Placement Examination.
- Fees for a College or University Admission Exam
- Tuition or fees at an eligible postsecondary institution.

- Contributions to a Qualified 529 College Tuition Program.
- Management fees from financial institutions selected by the Arizona Department of Education to oversee the accounts.

The ability to employ multiple providers, and to save funds for future use, represent the key innovations in an ESA program. ESAs move beyond “school choice” to education method choice, while providing an incentive for parents to consider opportunity costs. The incentives for providers under an ESA system: provide the services of the highest possible quality at the lowest possible cost.

The Arizona program is overseen by the Arizona treasurer’s office and the Arizona Department of Education. The Arizona statute provides for random audits of accounts and allows the Department of Education to remove a family from participation for a serious misuse of funds, subject to appeal. For minor and accidental misuse of funds, program administrators can require account reimbursement from personal funds.

In cases of suspected fraud, the Department of Education is empowered to refer cases to the Arizona attorney general’s office for investigation and possible prosecution. A recent review of the Arizona program found less than 1 percent of funds had been misused, whether purposely or inadvertently.¹¹ Operators in other states hope to lower the incidence of misuse to still lower levels through the development of management techniques and the contracting with vendors with extensive experience with public accounts such as Health Savings Accounts.

ESA laws constitute a liberal system of state-assisted education to stand beside the state-run system. Lawmakers have designed the Empowerment Account system to serve as an opt-out of the public school system—not an extension into the private realm. State taxpayers can enjoy a variety of benefits from the agreement with parents, including a direct savings and a better educated public. Possible other benefits to be realized with program creation and growth in Texas include relieving public school overcrowding and increasing the per-pupil resources available to school districts.

Nevada’s ESA program—passed as a part of a broad set of reforms designed to improve K-12 education in the state—allows all parents whose children attended public school for 100 days before applying to participate. Nevada lawmakers adopted ESAs in part because, like Texas, their school system faces severe overcrowding issues.

Nevada public schools are badly overcrowded, and the school-age population projects to grow further still by the hundreds of thousands. The New York Times quoted the Clark County (Las Vegas area) superintendent as saying that he could build 23 new elementary schools and they would quickly become overcrowded.¹² Nevada’s program provides additional resources to low-income students in order to address equity concerns.¹³

In the first year of the Nevada program, less than 2 percent of Nevada public school students applied for the program—approximately 8,000 applications from a public school system of 467,527 students—about 1.7 percent of the total. At the time of this writing, the program stands under court challenge and thus has not begun operations pending a ruling from the Nevada Supreme Court. Assuming a favorable ruling, we cannot expect all 8,000 students who applied to actually participate in the program—as some will find that a preferred private school lacks seats, find other options available to them in the public school system, etc. The experience with the Nevada program looks therefore quite consistent with that of other choice programs—no mad rush to the exits, but a steady incremental process of expanding participation.

Assuming an application rate similar to Nevada, Texas would expect to see annual applications of approximately 89,000 per year, with actual participation at a lower rate. This is a level of participation sufficient enough to slow the inexorable rise of annual enrollment growth in the public school system, giving the public school system breathing room to halt the decline of spending going for instruction.

Arizona, another state with a high level of K-12 enrollment growth, enacted relatively far-reaching choice-based reforms beginning in 1994 with the enactment of one of the nation’s most robust charter school laws. Arizona lawmakers followed this by enacting the nation’s first scholarship tax credit program in 1997 (which has been expanded several times) and the nation’s first Education Savings Account program in 2011.

Total enrollment in Arizona school districts continued to grow despite the creation of options, but the total percentage of Arizona students attending district schools incrementally but steadily declined. After 20 years, approximately 80 percent of Arizona public school students attend district schools. Without choice, the percentage of Arizona K-12 spending going into facilities would have been much higher, the percentage reaching the classroom much lower, similar to what we see in Texas today.

The evidence on overall performance sits comfortably with those that Milton Friedman would have predicted. The National Assessment of Educational Progress (NAEP) gives exams to statewide samples of students in fourth- and eighth-grade mathematics and reading in odd-numbered years. We can measure the gains of cohorts of students by tracking their fourth-grade scores across the years to eighth grade. Arizona students displayed the largest overall mathematics cohort gains for students between 2009 (as fourth-graders) and 2013 (eighth-graders). The next cohort available for study with the NAEP data currently available was fourth-graders in 2011 and eighth-graders in 2015. Arizona had the overall largest statewide gains for this most recent cohort as well.¹⁴ If one performs the same procedure in reading and ranks them equally with mathematics, Arizona ranks first in overall gains for both cohorts as well.

Arizona is a relatively low-income state whose K-12 system faces many of the same challenges faced in Texas and does so with less in the way of resources. Arizona's NAEP scores are not yet high, but they are headed in the right direction, which has positive implications for college readiness. We cannot isolate the impact of any individual policy reform on overall academic trends, but one would be hard pressed to note things unique about Arizona's K-12 system other than relatively low spending and relatively high levels of parental choice. It defies logic to think that Arizona has led the nation in NAEP gains since 2009 *in spite of* parental choice. **Texas needs this sort of dynamic tension to spur public school improvement as well.**

Conclusion: Bringing the Blessings of Education Liberty to All Texas Students

The current Texas public education system succeeds in educating only a minority of students to college readiness—and there are huge disparities among subgroups. Texas has long been a shining example of an opportunity society, but will suffer greatly if those opportunities do not reach more broadly. The crystal ball of demographers sees a vastly larger elderly popula-

tion and millions of additional school aged children on the way. Who will lead the way to meeting this challenge? Is the relatively tiny elite prepared by today's Texas public school system up to this challenge?

The Texas public education system produces an elite that is far too small and poorly reflects the state's diversity. We can safely assume that most of this elite benefitted from parental choice of the old-fashioned kind—carefully selecting home purchases for high-quality district schools. This long-standing choice system works for many well-to-do families but leaves a great many others out in the cold. Texans must look ahead and decide whether this is the society desired—or if they are willing to take the steps necessary to expand opportunity.

The state's goals laid out in the Texas Higher Education Coordinating Board's report, "60X30TX" must be achieved to build a globally competitive Texas. The report recognizes that by 2030, we need at least 60 percent of Texans ages 25-34 to have a certificate or degree. ESAs, if designed correctly, are a significant tool that will put Texas on a path to achieve that goal.

Presently, there are children in Texas enrolled in schools that are not meeting their needs. A well-designed program, one that delivers choice to Texas families, will enrich the opportunities that students have at their disposal. These opportunities will increase the odds of obtaining postsecondary success for more students and increase Texas' likelihood of building and maintaining a globally competitive workforce for generations to come.

A well-designed Education Savings Account program similar to that passed by Nevada has the potential to increase college eligibility for participants, increase college savings, and decrease public school overcrowding. It also has the potential to create positive competitive pressure on the public school system.

Texans could benefit substantially from such a system—and the Texas of the near future has even more to gain. The blessings of liberty were never intended to be a privilege enjoyed by the few, but rather the birthright of all. ★

ENDNOTES

- ¹ Lawmakers in Florida for instance provide a cash bonus to schools for students earning either college credit by exam or industrial certifications in high demand fields. The earning of both college credit by exam and industrial certifications increased substantially after the introduction of bonuses.
- ² [“2014–15 Texas Academic Performance Reports,”](#) Texas Education Agency, 2016.
- ³ Veronique de Rugy, [“Yes, We Do Have a Debt Problem,”](#) Reason, August/September 2013.
- ⁴ For a more extensive discussion of the impact of changing age demography, see Matthew Ladner, [“Turn and Face the Strain: Age Demography and the Near Future of American K-12,”](#) Foundation for Excellence in Education and Friedman Foundation, January 2015.
- ⁵ [“Tuition and Fees by Sector and State Over Time,”](#) College Board, 2016.
- ⁶ [Milton Friedman](#), interview by Phil Donahue, 1979.
- ⁷ Mark J. Perry, [“The Magic and Miracle of the Marketplace: Christmas 1964 vs. 2011 - There’s No Comparison,”](#) Carpe Diem (blog), December 22, 2011.
- ⁸ Mark J. Perry, [“The Miracle of the U.S. Manufacturing Sector,”](#) Carpe Diem (blog), December 22, 2011.
- ⁹ [“Facts and Studies,”](#) Council for American Private Education, 2016.
- ¹⁰ Matthew M. Chingos and Paul Peterson, [“The Impact of School Vouchers on College Enrollment,”](#) Education Next, Summer 2013.
- ¹¹ Jenni White, [“ESA Program Receives Good Grade from State Audit,”](#) Heartland Institute, August 3, 2016.
- ¹² Adam Nagourney, [“Las Vegas Schools Groan from Growing Pains,”](#) New York Times, October 6, 2014.
- ¹³ The Nevada ESA program provides \$5,100 per student for middle and high income students, and \$5,700 per student for students eligible for a free or reduced price lunch. This represents a 90–100 percent split across the income spectrum, but other lawmakers in other states could consider other possibilities—e.g., 80 to 115 percent.
- ¹⁴ Texas had the fourth largest cohort gain in mathematics between 2009 and 2013, but slipped to 21st between 2011 and 2015.

About the Author



Dr. Matthew Ladner is the senior advisor of Policy and Research for the Foundation for Excellence in Education. He previously served as vice president of research at the Goldwater Institute. Prior to joining Goldwater, Ladner was director of state projects at the Alliance for School Choice. He has written numerous studies on school choice, charter schools and special education reform, and coauthored Report Card on American Education: Ranking State K-12 Performance, Progress and Reform for the American Legislative Exchange Council. Ladner has testified before Congress, the United States Commission of Civil Rights and numerous state legislative committees.

Ladner is a graduate of the University of Texas at Austin and received both a Masters and a Ph.D. in Political Science from the University of Houston. He is a senior fellow with the Foundation for Educational Choice and the Goldwater Institute, and lives in Phoenix, Arizona.

